

**LUKAS, NACE, GUTIERREZ & SACHS**

**CHARTERED**

1650 TYSONS BOULEVARD

SUITE 1500

McLEAN, VIRGINIA 22102

**DAVID A. LaFURIA**  
**(703) 584-8666**

May 26, 2005

**VIA ELECTRONIC FILING**

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, S.W.  
Room TW-B204  
Washington, DC 20554

**Re: Federal-State Joint Board on Universal Service**  
**CC Docket No. 96-45**

Dear Madam Secretary:

In accordance with Section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, we hereby provide you with notice of an oral *ex parte* presentation in connection with the above-captioned proceeding. On Wednesday, May 25, 2005, Brooks Harlow and undersigned counsel, on behalf of U.S. Cellular Corporation and Rural Cellular Corp., met with Commissioner Ray Baum and Andrew Margeson of the Oregon Public Utility Commission to discuss the Joint Board's consideration of universal service issues in the above-captioned docket.

In the Joint Board's upcoming consideration of how carriers will receive support, we urged the adoption of a forward-looking cost methodology for providing high-cost support to rural ILECs, along with disaggregation at the wire center level as a means of more accurately targeting support to rural areas and limiting all carriers from accessing support in areas that are low-cost for ILECs.

We pointed out several factors in favor of this approach. The nation's non-rural carriers, many of whom operate in very rural parts of the country, currently operate on a forward-looking cost model, which has worked successfully. We noted that the current modified embedded cost methodology provides no assurance of accuracy or efficiency because rural ILECs operating on an average schedule basis do not report actual costs to NECA. While a forward-looking cost model would likely suffer some variances from a carrier's actual costs, it would ensure that only an

efficient network would be funded and would remove incentives for inefficiency which plague the current modified embedded cost methodology.

We illustrated the critical need for rural consumers to have access to modern technology, specifically mobile wireless communications systems that provide unparalleled health, safety and economic development benefits to rural consumers. We noted that the best evidence of the need for high-cost support is the fact that the FCC has licensed at least eight wireless carriers throughout the country, some as long as 17 years ago, yet many areas have no service, or very poor service today.

We described examples of 1700 rural consumers signing petitions in several small Nebraska towns committing to sign up for wireless service if a carrier would build a cell site covering their town. We illustrated how, in states where competitive ETCs have been designated for several years, high-cost support has been used to bring service to small communities that would not have had service otherwise.

We discussed the FCC's recent action of March 17, 2005 adopting guidelines for states regarding ETC designations and certifications. We noted the FCC's fairly narrow focus on ensuring that new rules applied to universal service and that the Commission did not attempt to regulate competitors in the same fashion of ILECs, who have monopoly power throughout rural America.

We discussed the FCC's five-year plan for CETCs. For rapidly growing carriers, who adjust their business plans every quarter to meet for example, changing market forces, new competitors, regulatory changes, and changes in support levels, any specific plan to build facilities that projects more than one or two years out is not likely to present information that will be useful to regulators.

We urged the Commissioner to work with NARUC and other state commissions to follow the examples of states that have successfully implemented compliance programs. We suggested a model that will provide targeted and reliable data each year, in advance of the deadline for state certification to the FCC:

- Describe how much support the carrier received in the prior calendar year.
- Describe how that support was used, or will be used, for the provision, maintenance, or upgrading of the company's facilities and services to provide supported services.
- Explain any changes from plans that have been previously provided to the Commission.

- Provide an estimate of how much support the carrier anticipates receiving in the following calendar year.
- Describe how that support will be used, for the provision, maintenance, or upgrading of the company's facilities and services to provide supported services, providing specific construction projects and, if necessary, maps, depicting how coverage will be improved in the upcoming year.

If a carrier submits such a report, along with a map showing where support was used to enhance coverage and service quality, a state can easily determine from year to year whether infrastructure in rural parts of the state is being improved commensurate with the level of support received.

We discussed the issue of cream skimming, which rural ILECs have identified as a problem. We predicted that the cream skimming problem is likely to be worse in the absence of CETCs being designated. Without support, competitive carriers will have neither the ability, incentive, or requirement to extend service beyond the larger towns and major roads.

We have enclosed a copy of the materials handed out at the meeting.

If you have any questions or require any additional information, please contact undersigned counsel directly.

Sincerely,



David A. LaFuria

Enclosure

cc: Hon. Ray Baum  
Andrew Margeson, Esq.  
Brooks Harlow, Esq.